



WORKER MISCLASSIFICATION

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McClatchy Series

- “Contract to Cheat” series appeared in the News and Observer and other McClatchy newspapers in September
- Based on public records in 28 states
- Series focused on misclassification in the construction industry jobs on federally subsidized projects

Misclassification

- Misclassification occurs when an employer incorrectly treats a worker as an independent contractor rather than an employee
- An independent contractor is issued a 1099 to report earnings
- The independent contractor is responsible for paying income taxes and the employer provides no workers compensation or unemployment insurance

Employer Responsibilities for Employees

- Employers must:
 - Withhold Federal and State income taxes
 - Pay Social Security and Medicare taxes
 - Issue a W-2 form
 - Pay Unemployment Insurance taxes
 - Provide workers compensation insurance when required

\$467 Million Problem

- The reported impact of the misclassification problem is based on applying the misclassification rate for public projects identified in public records (35%) to the construction industry as a whole.
 - \$134 million in state income and UI taxes
 - \$333 in federal income and payroll taxes

Misclassification

- Also a concern in other sectors
 - Healthcare
 - Underground economy
- Not a new problem
- NC Agencies have a long history of working to detect worker misclassification